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DIV. OF OIL, GAS & MINING

January 10, 2012

Gov. Gary Herbert  
Utah Governor's Office  
Utah State Capitol Complex  
350 North State Street, Suite 200  
PO Box 142220  
Salt Lake City, Utah 84114-2220

**REFERENCE: US Oil Sands PR Spring Utah Oil Sand Mine Project**

Dear Governor Herbert:

I am writing you to ask for your help in advancing energy development in Utah and specifically in dealing with regulatory delays experienced in our company's oil sands mining project proposed at PR Spring in Uintah and Grand Counties. These delays threaten not only the economic viability of our project, but of other projects to follow. The achievement of Utah's 10 year strategic energy plan is at risk as well. This is largely because of the inability of the process to deal effectively with a few obstructionists intent on thwarting all new hydrocarbon development and in particular the new unconventional resources which are a cornerstone of Utah's energy plan.

As you are aware, US Oil Sands (formerly called Earth Energy Resources) has been working diligently for over 7 years to obtain permits and initiate a small oil sand commercial mining project on this property. In fact, over 70% of our 10 year lease tenure has now expired and we are in danger of losing our lease rights, as we still have to raise the money and build the project in the short period remaining to initiate production. We first acquired the initial property back in 2005 and applied for permits to build and construct the project back in 2007. We are now in our fifth year of waiting for final regulatory approval to proceed. We, our shareholders, and the many stakeholders of Utah who stand to benefit from this environmentally-responsible and well-designed project, are very frustrated in the prolonged delays endured in this process.

Since we started work, US Oil Sands has invested over 20 million dollars to research, explore, develop technology, test and design this project. Although as mining and oil development projects go this project is pretty small at only 2000 barrels per day, the cost to develop it is quite significant, especially for a small company. Our investments have been made in good faith in the belief that Utah is intent on encouraging energy development. Before we obtain our first drop of commercial production or receive any revenue, we expect to spend an additional 35 million dollars. Raising capital is one of the most difficult challenges facing private enterprise today, especially in this tough economic

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climate. Our challenge is even more difficult as we face an uncertain regulatory process and timeline.

US Oil Sands has been very impressed with the attitude and technical capabilities of all of the various state governing bodies with which we have worked. Your people are high quality, and in fact the base regulatory process has been relatively straight-forward. We were granted our approval for our mine permit in September 2009 after approximately 2 years of thorough review. However, it is the subsequent process that has faltered. We have faced multiple frivolous challenges on minor technicalities from obstructionist groups. While minor in substance, the impact has been major in cost of time and money to the project. The current challenge will have waited over 14 months for a hearing within the Division of Water Quality. A subsequent hearing in the Division of Oil, Gas and Mining is waiting for the DWQ decision before it proceeds. We are now into our third year of wading through this process and there is no end in sight.

The objective of these intervening groups is not to promote responsible development or the furtherance of Utah's energy policy, and there is no common ground with them. Their stated objectives are to stop hydrocarbon and resource development, and they are prepared to hijack the regulatory and legal process to achieve their aims. They have also acknowledged that they do not expect to win their individual challenges, but they do expect to be able to mount enough challenges to be able to delay the projects sufficiently to make them uneconomic. Further, a number of these groups use the publicity of these legal challenges to solicit funds. The longer and higher profile the process, the more donations they receive. These groups are in no way accountable for the economic harm they cause or for the negative consequences they bring to the citizens of Utah.

Energy development in the state is an important contributor of jobs, tax revenue and royalty income. Even at a relatively low production rate, the royalty paid by this small project will generate an estimated \$2 million in royalty income each year to be applied through SITLA to public education. The support the project will give to service companies, suppliers and local communities is also very important. If successful the project has the potential to be repeated, and the economic dividends to Utah multiplied many-fold.

These groups claim to represent protection of the environment, but it is ironic that US Oil Sands' project is one of the most environmentally-responsible projects ever undertaken in the oil sands. It is a project that uses less water, less energy and less surface area than any other project in its class. It will have one of the lowest greenhouse gas footprints of any oil sands project, and even lower than most conventional oil projects in development today. The reclamation practices are second to none. It is a ground-breaking technology which uses a non-toxic biodegradable renewable solvent which removes the need for tailings ponds. If successful in this first project, we expect our process to be applied broadly in other locations with an enormous net environmental benefit.

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In order to bring a successful conclusion to this process, we request your support in several areas. I have attached a copy of this letter to various officials within the state offices, and we have also provided them with additional details of our efforts and delays. As well I would make several general suggestions for improvement.

1. Restrict and enforce the period of time in which petitioners may make claims or comments against a proposed development.
2. Greatly restrict the types of claims which are to be routed through a judicial process.
  - a. Solve administrative problems administratively and expeditiously.
  - b. Review of technical details to remain the responsibility of staff at the respective division.
3. The judicial process should be subject to a performance timeline.
4. Provide for reviews which take place concurrently.
5. Find a way to hold supplicants accountable and exclude frivolous challenges.
6. Develop an approach to protect new technologies, pioneering projects and fragile enterprises. Do not subject small projects to the same standard of regulatory scrutiny as large or "mega-projects".
7. Provide some form of governmental letter of support letting investors know the government is in support of a project once it has received regulatory approval.

We hope these suggestions will be taken as constructive and helpful.

We are proud to be undertaking the first commercial oil sands development in the US and very pleased to be working in such a can-do state with such welcoming and well-qualified people. We are committed to responsible energy development with respect for the environment and the communities we work in. And we firmly believe that through a diligent and co-operative approach we can solve the most intractable of challenges. We look forward to working with you in this regard.

Sincerely

Cameron Todd  
Chief Executive Officer  
US Oil Sands Inc.

cc: Spencer Eccles, Executive Director, GOED  
Amanda Smith, Executive Director DEQ  
Walt Baker, Director DWQ  
John Baza, Director DOGM  
Kevin S. Carter, Director SITLA

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